THE BRIDGE

CHRISTMAS 1928

CHRISTMAS is the one holiday which has an international significance. Santa Claus, Saint Nicholas, Rupknecht, Kris Kringle — whatever we call the Spirit of Christmas — is the original trans-Atlantic flier. He was crossing oceans on Christmas eve, with never a spill and whatever the weather — making the trip from the North Pole to America and Germany and England and Sweden and Sydney, Australia, for all I know, — long before the Wright brothers ever experimented with their first plane!

A citizen of no country — he is a citizen of them all!

So the Christmas BRIDGE is the right place for an account, a necessarily brief and imperfect account, of the credit unions in parts of Europe visited by the editor of the BRIDGE this summer.

Many years ago business men some place or other sensed, for the first time, that they could work out common problems more efficiently if they had an organization, and there resulted the first Board of Trade. Later the Board of Trade rechristened itself the Chamber of Commerce. After a while, many Chambers of Commerce organized the State Chamber of Commerce. Then we entered on our great era of industrial expansion and it was quite natural that industrialists in various states should unite in the Chamber of Commerce of the United States in Washington.

Recently a charming gentleman called at the office and convinced me that the Bureau would do well to become affiliated with the International Chamber of Commerce, representing industry the world over.

So the credit unions in Massachusetts have discovered how much more effectively they may work together and with the State authorities by and through the Credit Union League. Within six months of this writing there will be at least ten similar state leagues, and it will constitute a quite normal step for these leagues to organize a National Association.

Beyond that lies another step — co-operation and understanding between credit unions at home and abroad. Here again may be found an influence which, like the International Chamber of Commerce, will make for international good will. After all, there would be no nations without people. There can be no wars except as people, organized in nations, permit themselves to conduct their affairs so unintelligently that they must seek adjustment through the senseless method of mutual murder. Any agency which makes folks in one national unit realize how like they are to folks in another national unit and how well they can get along together, performs a great service.

Christmas greetings to credit union members — in Massachusetts, the United States — and all the world around!

Raiffeisen

Hands Across the Sea

By Roy F. Bergengren

Because of space limitations we have been obliged to omit an introduction to this article originally prepared to give readers of the BRIDGE the historical background of the credit union. We have also been obliged to omit an account of a trip to the home of Raiffeisen at Neuwied and all reference to the splendid co-operative movement in Sweden (quite the most impressive part of the entire trip), and the co-operative development in Denmark. All of this material will be contained in a supplementary article in the January issue.

HAVING lived so close to the credit union development in the United States during the past seven years that all I could see was the part of the program immediately within range of my vision, I went abroad this summer in order to forget some of the details of the job and to get far enough away so that I could see the whole undertaking in its proper perspective.

My plan involved contacting with Dr. G. Fauquet, who is head of the Co-operative Section of the International Labour Bureau, that branch of the League of Nations which deals with labor problems. The Bureau is housed in a splendid building in Geneva, the first permanent building devoted to work of the League. Dr. Fauquet's section is a sort of contact office between the central unions of co-operative societies in various parts of Europe. He not only met me in Paris on July 3rd, but placed at my disposal the resources of his office and very kindly arranged a schedule which would enable me to accomplish the most in the shortest time.

It was arranged that I should visit the central of the Swiss societies at St. Gallen, after contacting with one or two local credit unions in the immediate vicinity of Geneva. Thereafter I was to go to Berlin, there to meet officials of both branches of the Raiffeisen development and the Managing Director of the central union of Schulze-Delitzsch banks, and from Berlin to Prague in Czechoslovakia, where there is a relatively recent development of co-operative societies. I planned next to take a look at the Swedish co-operative stores and the Kooperativa Forbundets at Stockholm, which heads up the whole Swedish movement, completing my study in Denmark — the one country where most business is conducted on the co-operative plan of operation.

DR. G. FAUQUET

Prior to that, I had had a chat in London with officials of the Horace Plunkett Foundation, which is in closest touch with the co-operative movement in England and Ireland, and while in Paris I contacted with Hon. Myron T. Herrick, American Ambassador to France, who is very keenly interested in the development of co-operative credit in the United States.

Dr. Fauquet had arranged for an interpreter to accompany me on my visits to St. Gallen, Berlin and Prague, and without the very clever assistance of the interpreter (who could talk five languages and, in addition, knew the language of co-operation), I would have been unable to cover so much ground in such a short time. In a thousand and one ways Dr. Fauquet contributed to the business of making my investigations complete and worth while.

It is quite beyond the scope of this article to describe the fine building of the International Labour Bureau, but the picture reproduced herewith will give some idea of it. The main assembly hall has been beautified by the contributions of seven nations — vases from Japan, mural decorations from Finland, etc. — and I was very glad indeed to note that one of the conference rooms had been very adequately equipped by the American Federation of Labor in honor of the memory of Samuel Gompers.

Incidentally, again, one gets inevitably at Geneva a sense of the serious effort which is going forward to make the League of Nations a success, and a conviction of the permanency of the League and a certainty that it represents very necessary new thinking on international problems. *There is more to be found in Geneva to encourage a belief in the possibility of permanent peace than elsewhere in the whole world.*

SWITZERLAND

The first European credit union with which I contacted is a small one located at Compesieres, some miles outside of Geneva. We had a pleasant chat with the treasurer at his home. I found that this credit union, like all Swiss credit unions, is organized on the Raiffeisen plan with a membership limitation of five villages, containing all told about one hundred adult persons. As this credit union is typical of the small Raiffeisen society, it may interest readers of the BRIDGE to note the following details of its organization and operation. I list them numerically as we discussed them:

(1) There is a geographical membership limitation.

(2) It has a board of five directors, one from each village served.

(3) The directors are elected for four-year terms, two being elected every second year and two every fourth year.

(4) The treasurer is *not* a director but is chosen by the directors.

(5) He is paid, but the maximum is $60 per annum.

The Treasurer of the Credit Union at Compesieres

(6) The society does all of its banking business with the central bank of the Swiss credit unions at St. Gallen.

(7) This society has more resources than loan demand. It, therefore, sends its surplus to the central at St. Gallen and is paid interest for it. The St. Gallen Central reloans it at a slightly higher rate to credit unions which have loan demands in excess of their capital.

(8) Its borrowing demand (because the credit union is made up primarily of farmers) is seasonal. It has, however, made one loan to a postal employee member to help him build a house.

(9) This society is two years old and has assets of 60,000 francs ($12,000), of which amount, however, 15,000 francs were deposited by one member.

(10) It has 32 members. To become a member one pays an entrance fee of five francs (one dollar) and subscribes to a fifty franc ($10) share, payable in four quarterly payments pro-rated over a year.

(11) It has non-member deposits, the largest being 5000 francs, the non-members in most credit unions of this sort being either children (who will join as soon as they are old enough), or members of the parish interested by the priest, or persons of the village who use the credit union as a sort of bank, there being no other bank available.

(12) Saving is by deposit and the same rate of interest is paid on both member and non-member deposits, the rate varying with earnings from 3½ to 5%.

(13) Loans are repayable, generally, by installments. There is no fixed rule about the size of the loan. A member applying for credit states the reasons and the *directors* (there is no credit committee) decide whether or not the purpose is proper, the amount needed, and whether or not the loan shall be granted. Loans of more than 2000 francs ($400) must have the approval of both the Directors and the Supervisory Board.

(14) Two endorsers are required for a loan of from 100 francs to 500 francs ($20 to $100) and no loan is made over 2000 francs ($400) without a mortgage.

(15) The annual meeting is in March and the office is at the Treasurer's home. There is no state supervision, but the penalty for failure to keep the credit union accounts in good shape and the credit union operating in typical fashion, and for failure to pass a good examination when the auditors from the Central Union call — is severance from the Central Union.

(16) There are two kinds of deposit accounts — "sight deposits" and "savings deposits." A slightly higher rate is paid on savings deposits, which may be withdrawn only on two weeks' notice, than on "sight deposits," which are withdrawable at any time.

So much for the typical Swiss society at Compesieres, which we discussed at some length while we ate some delicious cherries in the immaculate front room of the treasurer — quite a bit outside Geneva.

Throughout this discussion one thing will be more or less self-apparent — that the European development is primarily rural, as distinguished from our own progress to date, which has been with urban groups. It will further be noticed that there are two types of group limitation in the European credit unions I visited — the geographical limitation with membership confined to a village, a collection of villages, or a part of a town — and the other (the more frequent type) the credit union limited to the church parish.

Furthermore, we have discovered already one of the primary differences between our own plan and that which prevails abroad; our credit unions are under state supervision and control and may be closed for failure to function properly, while credit unions abroad have no point of contact with the State and look to their own central auditing unions for auditing service.

At Saint Gallen

At St. Gallen (pronounced San Gaul) I contacted with Mr. Jean Heuberger, Secretary of l'Union Suisse des Caisses de Credit Mutuel, and I am very glad indeed that the picture I took of him came out well, so that I am able to introduce this very able secretary of the Swiss Union to readers of the BRIDGE in this issue. The union is housed in fine quarters, and Mr. Heuberger took us out also to a credit union in the outskirts of St. Gallen, also pictured herein with its very genial treasurer and Mr. Heuberger posed at the front door.

There are 450 Swiss societies in the Central Union, and it is Mr. Heuberger's opinion that there will be a gradual development until there are eventually at least a thousand credit unions in Switzerland. These 450 credit unions are spread over 19 cantons, and eight or ten of them are urban, while all of the rest of them are rural in character.

Functions of the Central Union

The Central Union has the following functions:

(1) The Central Bank or clearing house (located in the lower floor of the Union's building at St. Gallen).

(2) The auditing bureau, now geared to audit 80% of all the Swiss societies annually.

(3) The distribution of general information, the publication of a paper, and all legislative matters.

Support of the Central Union

The Central Union is supported by:

(1) The profit on its banking operations (that is, the difference between what it pays the loaning credit union and what it charges the borrowing credit union).

(2) One-third of the cost of the audit paid by the local societies, the other two-thirds being paid by the Central Union [in 1927 the auditing department cost the Central Union 40,000 francs ($8000).]

(3) A small profit on bookkeeping supplies.

(4) Profits and earnings on investments, mostly in State paper, the capital for investment being supplied by the shares taken in the Central by the individual societies.

(5) Returns on balances of funds in 30 banks, which accounts are so distributed as to be easily available to help local credit unions in need of funds.

The result of the plan of operation in the Swiss Central is that the individual credit union never has any appreciable cash balance or funds not actively working. The balance is always deposited with the Central Union and reloaned, the Central Union paying the local 4 or 5% for the use of its balance, depending on whether the money is loaned for a term or whether it must, from the nature of the business of the credit union involved, be liquid. The society to which the money is loaned pays a half per cent more for it than the Central Union pays to the credit union for the surplus which made the loan possible.

The Central Union also makes a small profit by buying and selling slightly fluctuating state paper.

There is no relationship between the individual society and the State, nor between the State and the Central Union.

The personnel of the Central includes ten occupied, paid people, four paid auditors, and at the time of my visit there were six apprentices learning the business.

Administration

The administration of the Central is in an unpaid Board of Directors and an unpaid Supervisory Council, and the method of organization and control is as follows: In order to join the Central Union, a local credit union must agree in writing to the principles and purposes of the Central Union and subscribe to the by-laws. In addition it must subscribe to one 1000 franc share ($200). There is, annually, a two-day General Assembly and each credit union is entitled to one delegate for each 1000 franc share owned in the Central Union, except that no credit union may have more than five voting delegates. At the last General Assembly there were 700 voting delegates present.

These delegates choose the Board of Directors — a small Board which meets four or five times a year in various parts of the Swiss Confederation. I imagine that the make-up of this Board is pretty much determined in advance, and the inclination is to keep a Director as long as he will serve, if his service is satisfactory. The Board is chosen also with the various considerations in mind which are peculiar to Switzerland — that part of the country is German in customs and language and the other part French; that there are both credit unions of Catholics and credit unions of Protestants, and that all elements must be fairly represented on the Board. One of the present Directors, for example, has served for twenty-five years. Directors are elected for three-year terms.

The Supervisory Council is a larger body, also chosen by the General Assembly, and it has a general oversight over the policies to be followed by the Central Union.

The Directors choose the two paid managing directors.

Members of the Board receive 25 francs ($5.00) a day and expenses when attending a meeting, and the local

credit unions pay all of the expenses of their delegates to the General Assembly. I found later on (and it may be of value when the Credit Union League of America is organized) that in some places the custom is for the larger credit unions to contribute directly or indirectly to the cost of sending delegates, particularly from the smaller and more remote credit unions. It has been pointed out to me by a student of the co-operative movement in general that it is important to have a Central Union so organized that the General Assembly will be a real meeting of League delegates, and not locally dominated by the credit unions in the immediate vicinity of the place where the meeting is being held.

History

The Swiss Central Union is 25 years old, represents 450 societies (of which 150 are parish societies), with a total membership of 37,482 — with, however, 168,545 non-member depositors. It was organized by J. E. Traber, a clergyman. The basic unit for local organization is always the political district if it is large enough; if not — the parish.

Financial Transactions of Local and Central

The plan of paying for the share subscription by the local and for its supplies, etc., is interesting, and is made possible by virtue of the fact that the local credit unions and the Central Union are constantly doing business together. When the credit union is accepted to membership it very rarely pays cash for its 1000 franc share. It is charged with the share as a debt, and thereafter every time the Central Union owes the local anything (as, for example, interest for the use of its balance), it credits the amount due on the amount owed for the share; when the local credit union needs supplies they are shipped on a similar basis, and paid for as the local has money coming to it from the Central. Theoretically — at the end of the year the local credit union is supposed to pay up any balance then due.

As the local credit union gets larger it *must* subscribe for more shares at the rate of one 1000 franc share for each 100,000 francs of assets, and it *may* subscribe for more shares at any time. Generally 5% interest is paid on shares in the Central Union.

In 1927 two hundred societies had too little money and borrowed from the Central Union, and two hundred and fifty societies had too much money, resulting in a surplus of 10,000,000 francs on hand by the Central Union in excess of the amounts needed for its business. Hence the investment in state securities, etc.

Liquidation

If a local society liquidates (and three or four have during the twenty-five years of the Central Union), the liquidation is carried on through the Central Union, and if there is a balance after all obligations have been paid, this is not, as in America, distributed among the shareholders, but it is kept intact by the Central Union until a new society is organized to serve that village, whereupon this surplus is turned over to the new society.

Reserve

The reserve of the local credit union consists, as already indicated, of what is left after the expenses and interest on deposits are paid, and the reserves of

At St. Gallen I met
MR. JEAN HEUBERGER

the Central Union constitute the difference between its earnings and operating costs plus what is paid as dividends on shares.

The Central Union will not assist a new group to organize if it is to serve more than a thousand people.

To fortify what I had learned as regards the operations of the credit union near Geneva, I asked Mr. Heuberger as to some of the practices of local credit unions in Switzerland. He gave me the following additional items of information: —

Additional Data Relative to Swiss Credit Unions

(1) There is no individual limit to deposits in a local credit union.

(2) The entrance fee (25 frs.) must be paid in cash on joining, but the share (100 frs.) may be paid for in four equal installments, payable three, six, nine and twelve months from joining.

(3) 5% is the maximum rate paid on deposits, and the average is 3½% on withdrawal money and 4½% on time money.

The Swiss Central Union is well housed

(4) The Central Bank also offers to credit union members its bonds as an investment and they pay 4¾%.

(5) The general return on money in a credit union is somewhat higher than on money in a bank, and many credit unions are located in places where there are no banks.

(6) Loans are made only to members and loans are limited to "things not listed as luxuries." I asked Mr. Heuberger the stock question as to loans for the purchase of automobiles, and was somewhat surprised by his answer that "automobiles are no longer luxuries."

(7) The time of the loan varies; sometimes it runs for 10 years with installment payments, if it is very large. A small loan ($200 or less) would generally be payable at the monthly rate of $20 per month plus interest. The largest loan he recalls is a mortgage loan of 50,000 francs ($10,000) to be amortized on the basis of 2½% per annum. About one-quarter of all loans are made to care for the short-term credit problem, and about three-quarters are for productive purposes.

(8) Credit unions may issue checks.

(9) Of the 450 credit unions, twenty do other than a credit union business as well — co-operative buying, etc. There are often other co-operative village societies closely allied (but not merged) with the credit union.

(10) These credit unions are all organized on an unlimited liability basis, but there is no record of a case where this unlimited liability provision has been made use of (or was necessary) to protect persons having business relations with the credit unions.

A Credit Union in the outskirts of St. Gallen

(11) There is an interesting method sometimes used for paying local Treasurers on the basis of fifty to sixty centimes for each entry or book transaction made, but as credit unions grow larger they have full-time treasurers paid in some cases from 8,000 to 10,000 francs ($1600 to $2000) and, to quote Mr. Heuberger, "there will eventually be hundreds of paid treasurers."

Incidentally these treasurers are recruited from "teachers, farmers, and clergymen for the most part."

In General

I then asked one or two further questions about the operations of the Central Union, and particularly the auditing section, and learned that the auditors work three months in the office and nine months in the field. The treasurer of the local credit union is bonded, the amount of the bond depending on the size of the credit union. The credit union is also often the parish depository.

To install a new society costs — including supplies — 250 francs ($50). The Central Union also supplies, at a great discount, a safe particularly designed for credit union bookkeeping and management, this being paid for by sub-

sequent credits from business done with the Central. Checks may be drawn only on accounts current, and not on time accounts.

Dividends on shares in the Central Union are always paid at the Annual Assembly as an inducement to get a large delegate representation.

GERMANY

It should be, in the first place, appreciated that there are two types of co-operative credit society in Germany — the Raiffeisen banks, which are primarily rural in character and which, nevertheless, are more nearly like our own credit unions, and the Schulze-Delitzsch banks, which are urban in character. The membership of the Raiffeisen societies is 64% rural, 10% workers, 4% teachers and professional men, 17% craftsmen, with 5% miscellaneous.

The Schulze-Delitzsch societies serve, primarily, craftsmen, professional men, and small merchants. Many of them are very large and they have no group significance at all. They do not particularly want the business of the worker, and as a matter of fact he is pretty much unaccommodated in Germany. The Schulze-Delitzsch banks reminded me, as regards equipment, personnel, and general attitude, more of our larger co-operative banks or building and loan associations. While co-operative in their form of organization, their service is primarily to the individual who is no longer a wage worker, and they specialize for the small business man and the craftsman.

Of the 52,000 co-operative credit societies in Germany — 40,000 are rural. The rural societies, from the very nature of the case, average to be much smaller than the Schulze-Delitzsch banks which are located in cities and without appreciable membership limitation.

The Three Federations

By 1885 there were in Germany three federations of co-operative societies. In the first place there was the Schulze-Delitzsch organization, the „Universal Federation of Self-Supporting Co-operative Societies. Secondly there was the General Federation of Rural Co-operative Societies which had been formed by Raiffeisen. Finally there existed the Imperial Federation of Agricultural Co-operative Societies organized by W. Haas.

There are, therefore, two Central Unions of Raiffeisen societies. For the purpose of simplifying identification in this article we will refer to them as the Haas Union and the Raiffeisen Union. The Haas Union, incidentally, includes 25,946 of the 40,000 rural credit unions in Germany.

In General

The membership limitation in a Raiffeisen society is geographical, but each society is confined within a sufficiently small area (village, etc.) so as to have real group significance. The largest local societies number about 600, the smallest about 30, and the approximate average is 100. The Schulze-Delitzsch limitation is also geographical, but within cities and large towns, where there is no particular protection to be found in the fact of limitation. They do a general banking business, including the issuance of checks.

Both the Raiffeisen and Schulze-Delitzsch banks receive deposits from non-members, but in the Raiffeisen banks this feature is used mostly by children who will become members on coming of age.

Membership is again predicated on subscription to a single share, and savings accomplished by deposits. When there is a rural development in the United States it will doubtless follow this utilization of the deposit feature of credit union organization because of the irregularity of farm income.

Many of the Raiffeisen societies are parish groups, and the non-member deposit feature is used by well-to-do members of the parish who do not need credit and who do not want to assume the unlimited liability which attaches to most German credit unions, but who are willing to make deposits in order to swell the totals available for loans.

The individual Raiffeisen society is not always exclusively a credit society, as it sometimes has to do with co-operative buying and selling, and concerns itself often with marketing functions.

The Rural Society

One need but ride from Cologne to Berlin to understand some of the basic reasons for the success of the rural co-operative society. To begin with, the farmers live for the most part in villages, from which in the morning they go forth to work on their, in some cases, quite remote farms, and to which they return in the early evening. They are not, therefore, so essentially individualists as our small farmers who live on the farms and are many times much isolated from each other. The German farmers meet, naturally and normally and without effort, in a central place at the end of each day, which makes the whole business of running a successful credit union very simple. Furthermore, the German farms are small, and the farmers' purchases are proportionately small, and the savings incidental to co-operative buying proportionately large.

Again, the German farmers plant about the same sort of crops and have pretty much the same general farm problems; they are not the type of isolationist one finds so often in rural districts in America; and one difficulty with our farmers in the United States is to be found in the fact that they have never yet adequately learned the lesson which the employer learned many years ago, and the worker learned at about the same time — the value of collective action. The American Federation of Labor and the Chamber of Commerce of the United States alike typify this realization by worker and employer of the value of co-operative action; the German Raiffeisen bank is an expression — a very effective expression — of a similar appreciation on the part of the small German farmers.

Administration of the Local Credit Union

Membership in both Raiffeisen and Schulze-Delitzsch societies is predicated on an acceptance of the principles of the society, election by the Board, and the subscription to at least one share of a par value of 100 marks (about $20), payable in cash or in installments prorated over a year.

Management of the individual society vests in a Board of Directors and a Supervisory Committee, and the Board passes on all ordinary loans; if the loan is particularly large, the Supervisory Committee is consulted. The Treasurer is the Manager, and while he must be a member of the Credit Union, he is not a member of the Board. Sometimes he is paid a small flat sum and sometimes on the basis of bookkeeping entries made, the total being small in either event. Generally the manager of the local credit union and of the co-operative buying society are one and the same.

The Schulze-Delitzsch banks have grown so large that they offer about the same inducements as commercial banks as regards salaries and chance for promotion to banking positions of importance. The Raiffeisen banks, on the other hand, are quite like our credit unions, and most of the work is done by folks not trained in banking, who are paid very little for the work they do.

It takes seven (as is our own general practice) to organize a Raiffeisen society, and a membership of 100 is typical. Interest rates on loans were lower before the war but have increased since, until 12% is not today uncommon. Interest rates on deposits have grown in proportion.

Distribution of Earnings

There are no dividends paid on shares in the Raiffeisen society, and as already indicated share holdings are limited in most cases to a single share, and saving is by deposits. After expenses and interest on deposits are paid, all additional earnings (including what would have been paid as dividends on shares in an American credit union) are paid into the surplus or guaranty fund. In some cases when the surplus reaches a given amount the balance over and above that amount is used for educational purposes. The reserve fund is indivisible, even on dissolution, generally reverting in that case to the Central Union, and unlimited liability is general.

The Central Union of Schulze-Delitzsch Societies

Results of the War

The depreciation of the mark, after the war, caused credit union members to lose practically all that they had in the credit unions. A man with a deposit of 10,000 marks, worth $2000, suddenly found himself worth practically nothing. There were 500 liquidations; some were able to stabilize their marks with new gold, the savings of members, and they all, practically, had to start over again. Some one (my notes do not disclose who) said at one of the Berlin conferences — "*You can wound — but not destroy — the co-operative movement.*" We have learned from our own experience in America that our credit unions have an almost uncanny power to weather successfully periods of hard times.

The fine building of the International Labor Bureau convinces one of the permanency of the League

Differences Between Raiffeisen and Schulze-Delitzsch Banks

In addition to the difference incidental to the fact that the Raiffeisen societies are small and that the Schulze-Delitzsch banks are banks in deed as well as in name—there are other operating differences which sustain the conclusion that the credit union owes its origin primarily to the Raiffeisen system. The *purpose* of a loan by a Raiffeisen society, for example, is important, just as in our credit union practice. The Schulze-Delitzsch banks are concerned, on the other hand, simply with the probability of repayment — as are commercial banks.

A difference between both types of co-operative credit societies and our credit union is to be found in their relationship to the State. The Raiffeisen and Schulze-Delitzsch banks are organized under a general national co-operative law, but charters are not granted by the State, nor has the State the right of supervision and the power of audit. Auditing is done by provincial audit bureaus, maintained by the Provincial Central Organization. The net result is the substitution of the disciplinary power of the Provincial Central (and thereby, indirectly, the National Central) for the powers exercised under state laws in the United States by the State itself. The State simply gives the right to organize and legalizes organization.

A Lesson for Us

There is a 100% membership in all of the Provincial Unions for the very simple reason that the Union does so much for the individual societies that none of them can afford to remain out of the Union, a lesson being contained in that fact for credit union leagues in America. A study of this particular phase of European credit union activity makes one wonder whether or not eventually, by amending legislation, the State should be relieved of the burdens of credit union audit and this obligation transferred, under some proper regulation, to auditing bureaus developed by state leagues. There is much to be said for such an arrangement, and this is suggested as a topic for state league discussion.

In America the State may close a society that is improperly managed; in Germany the Provincial Union may accomplish exactly the same result by withdrawing the privileges of membership from a society which fails to satisfy the audit by the Provincial Union.

Organization of the Provincial Union

The plan of organization of the Provincial Central is as follows: — The societies within a Province meet in an annual Delegates' Meeting and elect a Provincial Board, which Board, in turn, elects a Manager. If there is a Central Provincial Bank its shares are controlled by the local societies, who elect (each society, in most cases, casting as many votes as it has shares), a Supervisory Committee, which Committee elects a small board of active paid directors. The Provincial Central has the following functions:

(1) Auditing.
(2) Banking in the Haas Provincial Unions.
(3) Propaganda and organization.
(4) Usually the publication of a paper.
(5) Sometimes central purchasing, when the credit society is also a co-operative buying society.
(6) Contact with the National Central.

Differences Between the Raiffeisen Centrals

So far as I could ascertain, the primary point of difference between the Haas Central Raiffeisen Union and the original Raiffeisen union has to do with the centralization of banking functions. The original Raiffeisen society follows the same plan as the Raiffeisen banks in Switzerland — with a very large central bank in Berlin which operates with branches (but no independent and separate banks) in the Provinces; while the Haas Central does not advocate such highly centralized banking control, and operates with a Bank in each Province — the central bank in Berlin being simply the clearing house for the Provincial banks.

State Loans

As there is not enough money in all of the credit unions to take care of all of the credit problems of credit union members, the State loans money to Raiffeisen societies, which loans are handled through the central bank. Incidentally, it seemed to me that the Haas plan of Provincial banks works best in practice.

Auditing

The auditing function is of primary importance, and I was impressed everywhere in Europe with the fact that it is this auditing function which is primarily responsible for the unity of the national central organizations. By controlling the audit, they perform a service which compels membership by all societies in the central union.

Education

I visited also at Berlin the school maintained by the Haas Central, where there is a five months' course in various technical activities of society operation.

Dues

In some cases dues paid by the local to the Provincial Central include the cost of the audit, and in other cases the expense of the audit is borne by the Central unless it takes an exceptionally long time, in which event the local society pays for the overtime. This plan also tends to keep the bookkeeping of the local society in order. If the audit is unsatisfactory, the officers of the local society are notified, and if improvement is not forthcoming within a definite time, the local society may lose its affiliation with the Central, including all rights of central banking facilities, etc.

The shares of the Provincial bank are held by the local societies, but the form of organization varies, and in some Provinces the Provincial banks are organized in conformity with banking laws which vest voting powers in shares — that is, with the number of votes determined by the number of shares.

The managing director of the Provincial Union and of the Provincial Central Bank is generally the same man, and in the Raiffeisen Central form of organization *must* be the same man.

The Haas Central is housed in a very fine building, located next to the Ministry of War, and requires a staff of twenty-five paid employees to carry on its various functions.

The Provincial Unions assist in organization work and generally publish a paper devoted to the work of the societies.

The Local Unit

Each local society has a geographical membership limitation, with each local including two or three villages, but rarely including in the village group more than a hundred people all told. The Raiffeisen societies recognize the necessity of keeping the groups small enough so that the members may all know each other.

The form of organization is, as in the United States, described in the law.

The Provincial Union supplies organizers and bookkeeping forms, which forms are sold, as by the Massachusetts League, at low rates.

Central Printing Plant

The Raiffeisen Central owns and operates a central printing plant, which I later visited at Neuwied (the birthplace of Raiffeisen), and which is indicated to the right of the picture of the Raiffeisen monument. The publications of the Provincial Centrals are, for the most part, semi-monthlies and contain general propaganda, etc.

There seems to be a difference of opin-

ion as to whether or not Germany has reached the saturation point in the Raiffeisen development; despite the liquidation of 500 societies during the difficult times immediately after the war, there is some opinion that the saturation point has been reached.

The Raiffeisen system as worked out in Germany has demonstrated the desirability of combining other forms of co-operative effort — such as marketing, co-operative buying of seed and fertilizer, and (a relatively recent innovation) co-operative insurance.

Common Functions

The two national centrals of the Raiffeisen societies have three common functions: — (1) distribution of state credits; (2) general propaganda; and (3) the matter of mutual protection from adverse legislation.

The Raiffeisen Central Bank

In the Raiffeisen Central, membership by the local credit unions in the great Central Bank at Berlin is predicated on the purchase by the local society of at least one share of one hundred marks, payable in cash or in installments prorated over a period of not more than one year. A society may have more than one share, in which case each share carries one vote at the General Meeting.

Form of Organization of Raiffeisen Central

The plan of organization of the Raiffeisen Central is as follows: The local societies elect a Supervisory Committee of 28. This Committee chooses four employed, paid, managing directors and the President, who in addition to being President of the Central Bank is also President of the Central Union. The members of this Board and the President, while they go through the form of re-election from time to time, practically hold office for life if they are competent. Proxy voting is allowed, and this doubtless makes for centralized control. The members of the Supervisory Committee are elected for five-year terms, and the directors, chosen from *outside* the Supervisory Committee, are chosen for various contractual periods. The tendency is to train the best local men into the work of the National Central.

CZECHOSLOVAKIA

I shall for a long time remember the ride from Berlin to Prague. According to the German newspapers it was the hottest day in thirty-six years. I had had a very bad tooth extracted in Berlin, which had not added any to my comfort, and the nearer we got to Prague the hotter grew the weather. At dinner-time we had to go forward eight cars, most of them crowded, third-class compartments, and when we finally arrived at the diner, a dinner was served which might have been all right for hungry men in mid-winter at the North Pole, but was no repast for hot, tired travellers in Czechoslovakia when the thermometer was breaking all known records.

It is not within the scope of this article to discuss this interesting country, which may possibly be adequately described as a good result of the war. One is, however, impressed on every side that this country should be free, and that it will make good use of the freedom which Woodrow Wilson had so much to do with making possible. One of the two railway stations in Prague is named the Wilson Station, and on July 4th a very beautiful memorial to Wilson was unveiled in the Square fronting the Station. Because of this feeling of gratitude to Wilson, Americans are very welcome in Prague, and the city offers much for the tourist. I found the hotel in every way adequate, and after the long, hot, dusty ride the shower bath which was attached to the room was very welcome indeed.

During the night a thunder shower which had been threatening all day caught up with Prague and cooled the weather materially.

A Relatively Young Movement

My contact at the Zentralverband d. disch landu Genossenschaften Böhmens was with Mr. Antonin Hůlka and Mr. Karl Haas, and the first thing to attract my attention was the fact that the publicity matter issued by this Central is published both in Czech and English, which was a very great help indeed. Here we have a co-operative credit movement which is relatively young. The development dates from 1888, and there are now 4400 societies, mostly rural in character, with either geographical or parish limitations, and composed of approximately 80% farmers and 20% workers.

The Central Union is housed in a large building, and there is here also a close alliance between credit society and general agricultural co-operatives.

Type of Organization

A small credit union within this group has from 25 to 30 members, and a large one 500 members; the average membership is about 150. Most of them are within Catholic church parish groups.

The credit unions of Czechoslovakia are divided territorially into twelve auditing unions, three of which are German and nine Czech, three of which latter are located in Prague, and these auditing unions control the Central Union at Prague.

Auditing Unions

The functions of the Auditing Unions are as follows:

(1) To do the auditing of the local credit unions.

(2) To serve as a clearing house for the credit unions in the Auditing Union.

(3) To serve as a bank of credit for affiliated rural societies.

(4) To handle supplies for the local credit unions practically at cost.

(5) To carry on propaganda work and to organize new societies.

A local credit union joins the auditing union by an application for membership which contains a statement of adherence to the rules. It pays small annual dues, and makes a share subscription, both dues and shares being governed by the size of the credit union.

An annual audit of all local credit unions is required by law, but the law does not provide the auditing machinery, which is carried on instead by the auditing unions. If, on the other hand, there is a co-operative buying society connected with the credit union (or organized within the same group), or any other co-operative activity calling for loans by the government, the society receiving government credit of this sort is government audited. There is an annual meeting of the auditing union attended by delegates from the societies which compose the union.

The Central Union

There is a General Meeting of the Twelve Auditing Unions, which governs the general affairs of the credit unions in Czechoslovakia. *The Central Union has no banking functions.* It is supported by (a) dues; (b) earnings on shares; and (c) some income from supplies. Bookkeeping forms are uniform and sold practically at cost to credit unions.

There is a general co-operative school at Prague, but it is governed and managed under a complicated system in which the government figures. Co-operative accounting is taught at the Agricultural College. The dividends paid by an auditing union to the locals which compose it are fixed by law, and cannot exceed 4%. Some instruction in bookkeeping is afforded by the Auditing Union.

There has been some discussion of a Central Bank, but as yet it has been deemed "too difficult." The Central Union has only been operative about five years. I was told that "the national association is the representative of the movement before the government." There seems to be a quite general feeling among the European central unions of co-operative credit societies that there is a need to present a united front in matters of legislation. "It also carries on a scientific propaganda and has to do with the perfection of methods, uniform

Prague is a very interesting city

My contact was with Mr. Antonin Hůlka

standards and improvements of farm products, etc. . . . it deals, in fact with all of the common problems of the local societies."

Summary

The local societies are organized in auditing unions and each union has real power, performing banking, auditing and many other functions. The auditing unions combine in the Central Union.

Each auditing union, in proportion to its size and importance, takes out shares in the Central Union. At present the total share holdings of this sort is approximately 600,000 K. The government of Czechoslovakia is very friendly to the credit union development. There are 500 credit unions in the largest auditing unit, and in a few of the societies most of the members are workers.

The Local Credit Union

To become a member of a credit union one must make a declaration of willingness to abide by the rules, pay an entrance fee of from 10 to 20 K (forty to eighty cents) and subscribe to at least one 100 K share ($4.00) payable generally (but not always) in cash. Loans are repayable and written whereever possible for short terms. No loan is ever made for over four years, and the average length of even the larger loans is from one year to a year and a half. Generally two endorsers are required, and the loans vary from 400 K ($16) to 30,000 K ($1200). There are no mortgage loans. The treasurer is paid but a very small amount, and no share dividends are paid. All surplus earnings go to the guaranty fund until it equals the capital, after which time it is used for educational purposes. They have had but few failures in Czechoslovakia, and very seldom does the individual society suffer from bad loans; nor did they suffer, as did the German credit unions, from currency deflation after the war.

Primary Function of European Credit Unions

The credit end of the European credit union is much more important than the thrift or savings end, and the great problem in Europe is to get enough money to care for loans, which brings into play the central bank, switching balances here and there so that all money will be in constant use, and also serving as the central distributing agency of government loans.

GENERAL AND UNDERLYING DIFFERENCE BETWEEN CREDIT UNION DEVELOPMENT IN EUROPE AND THE UNITED STATES

I have often wondered why our development in the United States has advanced so slowly and what accounts for the comparatively rapid progress abroad. I think the answer is to be found in the fact that there was originally a compelling motive behind the European movement — the drive of sheer necessity. When Raiffeisen organized his first society it was a time of famine, and his early experimentation was urged on by an acute condition calling for immediate relief. He discovered—not for the first time in the economic history of the world, but for the first time in his immediate neighborhood — that a group of men could do collectively what no one of them could do individually. His discovery — I repeat, because it is so important — had the real drive of hard, cruel necessity behind it.

If we could bring together in one spot all the victims of usury in a given city or state, we would have a somewhat analogous situation.

Further, the European development was primarily rural and had behind it the great stimulus incidental to the interest, co-operation and direction of the Catholic clergy. This influence still persists, not only in Europe but also in Canada, where Desjardins' great work was carried on in co-operation with the priests in the many parishes where he organized credit unions. This development has not been duplicated in the United States, and while there is interest here and there in parish organization, there is as yet no show of interest in this type of credit union development which would indicate eventual substantial progress in the organization of credit unions of this character. With the preliminary experimentation with parish groups in progress, however, the development of interest is confidently anticipated.

Incidentally, our farmers operate on a so much larger scale than average agriculturists in Europe that their business more nearly approaches banking size, and is cared for normally in many cases by ordinary banks of credit. Further, our farmers live on their farms and do not cluster in villages; they are, therefore, not so keenly responsive to co-operative effort. Further, it is proving most difficult to promote even an experimental rural development, due primarily to our failure, to date, to make any material impression on those contact men in state agricultural colleges and farm organizations who could help materially with that experimentation. Such co-operation will doubtless come eventually.

It is obvious that the credit union in the United States is not for the farmer whose business is the equivalent of that of the large business man; the credit union in the city is for the worker and the small business man, and in the country it is for the small farmer, the renter, the farmer whose business will be promoted by intelligent co-operation with his neighbor.

What, then, is the compelling need, if any, for the credit union today in the United States?

In the cities (and in many rural districts as well) the need exists because the rank and file of the people — workers and small farmers — are without normal credit facilities at legitimate rates of interest in time of credit necessity. The evidence of this fact may be found in the records of the Commission which in New York, at the instigation of Attorney General Ottinger, investigated usury in the spring and summer; in the usury investigation in Chicago by the United Charities a few years ago; in the findings of the Atlanta Junior Chamber of Commerce, and in almost innumerable similar investigations in recent years in cities large and small. It is to be found in the investigations of this subject over the past seventeen years by the Russell Sage Foundation, leading to the enactment of laws in 24 states (as an alleviative) which authorize the licensed money lender to charge 42% on loans of $300 and less.

There is further a great need in the United States, both in cities and in the country, for the development of "money sense." We live in an age when the rapid economic development of our country has brought to the average man's door more express wagons delivering bundles and crates and packages than ever before, anywhere, in the history of the world. I may have manual possession of a fine automobile, an electric ice chest, an electric washing machine, a radio, a phonograph, good clothes on my back and on the backs of my wife and children, sit in a comfortable chair, and play on a baby grand piano — without owning automobile, ice chest, washing machine, radio, phonograph, clothes, the chair, or the piano.

That is only a partial list.

If we could only eat and travel on deferred payments (and were but agile enough always to keep a step ahead of the collector) we should be almost at the millennium; *but* — the other day we looked over the affairs of a regularly employed man who earns forty dollars a week and wondered why he was always without lunch money, until he suddenly discovered that he had contracted for things which cost him in payments sixty-two dollars a week. *That is an extreme case, but it illustrates how economically out of balance we are going to become unless we begin to have money sense — the capacity to use cash purchasing power and credit purchasing power — both as scientifically and completely as possible, consistent with an orderly, economic life.* The credit union is the finest agency in sight capable of bringing this understanding of money to the masses of the people. This acute need of money sense is another great and commanding reason for credit union development in the economic life of the people.

A normal credit union program eventually commensurate with the development in Europe may prevent a national excursion into the realms of prosperity from turning into an altogether irrational joy ride.

The credit union is very consistent with the theory of our progress from the beginning — a theory which we must never lose sight of, no matter what the surface indications of prosperity may be — that the United States be a nation where there shall be both political and economic institutions which are truly by the people and of the people and for the people.

The urge for credit unions — the pressing need for credit unions — is as great in the United States as in Europe